



**Escopeta Oil Company, LLC**  
**1029 West 3<sup>rd</sup> Ave, Suite 500**  
**Anchorage, Alaska 99501**

October 31, 2011

Patricia Bettis  
Petroleum Land manager  
Division of Oil and Gas  
550 W. 7<sup>th</sup> Avenue, Suite 1100  
Anchorage, AK 99501-3560

RE: **Kitchen Lights Unit Status Report**  
Unit Plan of Exploration, Approved June 30, 2009  
Unit Plan of Operations (LOCI 06-004), Approved May 5, 2011

Dear Ms. Bettis,

Escopeta Oil Company, LLC ("EOC"), as Unit Operator of the Kitchen Lights Unit, is pleased to inform you that the Kitchen Lights Unit ("KLU") No. 1 well has been successfully spudded and drilled to a depth of approximately 8,805 feet. Current operations that are on-going include well logging and formation testing, well suspension, rig demobilization, and delivery of the rig to a suitable over-wintering location.

The successful delivery of the Spartan 151 offshore jack-up drilling rig puts EOC in the history books for being the first company in almost two decades to bring an offshore exploration rig to the Cook Inlet. This is the first of what EOC hopes to be a long list of accomplishments in the Cook Inlet, as well as for the State of Alaska. EOC is committed to safe operations, environmental stewardship, and the prospect of early natural gas delivery to the south central region of Alaska.

EOC received all necessary governmental authorizations and permits prior to the rig being released by the ocean-going tugs and set on location in mid-August of this year. The KLU No. 1 well was officially spudded on September 2, 2011. On October 17, 2011, the KLU No. 1 reached its 13-3/8" casing point (TVD @ 4,933' with 17-1/2" hole), as approved by the Division of Oil and Gas ("Division") on September 2, 2011. After the 13-3/8" casing was set and cemented, EOC began drilling ahead with a 12-1/4" hole on October 24, 2011, as authorized by the Division and Alaska Oil and Gas Conservation Commission ("AOGCC"). The present total drilling depth of 8,805 feet was reached on October 28, 2011.

EOC received an extension to the Seasonal Drilling Restriction date of October 31, 2011 (ODPCP No. 11-CP-5184, Approval Letter Stipulation No. 7) by the Department of Environmental Conservation ("DEC") on October 28, 2011. This extension allowed drilling operations to continue as long as the Spartan 151 drilling rig was demobilized off of the KLU No. 1 location by November 15, 2011. With the current operations underway, and the present weather conditions, EOC is confident the Spartan 151 jack-up drilling rig will be off the KLU No. 1 location by the stipulated date.

The Unit Plan of Operations (LOCI 06-004), approved May 5, 2011, included a four (4) well exploration drilling program for one well to be drilled between March and December of each year through 2014. Although the KLU No. 1 was not drilled to 16,500' as planned this year, EOC believes there is sufficient time in the 2012 drilling season to complete the KLU No. 1 well to its permitted total depth, and to continue drilling the second exploration well - keeping the over-all approved drilling program on track.

This Unit Plan of Operations ("POO") status report is being submitted in accordance with stipulation number 8 of the POO approval. EOC will promptly notify the Division when the Spartan 151 drilling rig is released from the KLU No. 1 well location, and where EOC intends to store the Spartan 151 rig over the winter. EOC will also provide to the Division with all geological, geophysical and engineering data obtained from the KLU No. 1 well within 30 days after the temporary suspension of the well.

EOC will receive all necessary authorizations for the towing, delivery and either the docking or staging of the Spartan 151 drilling rig, prior to its arrival at the over-wintering location.

EOC is not aware of any non-compliance issues or violations regarding the Unit Plan of Operations or relating to any operations at the KLU No. 1 location or with the KLU No. 1 well. The location and well is in full compliance with all governmental authorizations, and there have been no incidents. EOC intends to temporarily suspend the KLU No. 1 well per the AOGCC Sundry Approval, using best oilfield practices so the well may be reentered, drilled to the permitted depth of 16,500 feet, and completed next year.

As you know, the approved Unit Plan of Exploration included a commitment for the drilling of one exploration well each year through December 31, 2013. Although the KLU No. 1 was committed to be drilled to a depth of at least 16,500 feet during the 2011 Plan of Exploration year (as amended by the September 23, 2010 Agreement), certain delays have prohibited the well from being drilled to its total depth this year. These delays have included: mobilization, weather, governmental negotiations, and operational-related events. Therefore, EOC intends to re-entering the KLU No. 1 well next spring, completing the well to its total depth, and then continuing with the either the 2012 Plan of Exploration year's well commitment or the initiation of a natural gas development plan. The forward-looking plans for the KLU are currently being reviewed by the Division's Director and the DNR Commissioner's office.

Thank you for your review of this status report, and your continued assistance and governance of our drilling program, Unit Plan of Exploration, and Unit Plan of Operations. Should questions arise, please do not hesitate in contacting me, Edward Page Oliver, or EOC's attorney Mr. Jon Iversen.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bruce Webb".

Bruce D. Webb  
Vice President, Governmental and Regulatory Affairs

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CC: Edward Page Oliver, President, Escopeta Oil Company, LLC  
Jonathan Iversen, Stoel Rives LLP  
Brian Havelock, Division of Oil and Gas  
Bruce Buzby, Division of Oil and Gas  
LCDR Bradley Clare, U.S. Coast Guard  
Betty Schorr, Department of Environmental Conservation, SPAR  
Jack Hewitt, U.S. Corps of Engineers  
Barbara Mahoney, National Marine Fisheries Service  
Richard Cool, U. S. Environmental Protection Agency  
AOGCC Commissioners and drilling/engineering staff  
Senator Tom Wagoner  
Senator Lesil McGuire  
Representative Mike Hawker